

McGladrey & Pullen

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Mayor and Aldermen
City of Manchester, New Hampshire

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Manchester, New Hampshire ("the City") as of and for the year ended June 30, 2005 which collectively comprises the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the Manchester School District or the Manchester Transit Authority, component units of the City, which financial statements reflect 100% of the revenues and 96.4% of the assets of the discretely presented component units. We also did not audit the City of Manchester Employees' Contributory Retirement System, a pension trust fund and a blended component unit of the City, which represents 85% of the assets and 93% of the additions of the pension trust funds. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the basic financial statements, insofar as it relates to amounts included for the Manchester School District, the Manchester Transit Authority and the City of Manchester Employees' Contributory Retirement System, component units of the City, is based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards" issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit, and the reports of other auditors, provide a reasonable basis for our opinions.

As described in Note 9 to the basic financial statements, the City accounted for the receipt of title to the Manchester Civic Center as a non-exchange transaction. We were not able to obtain sufficient evidence to satisfy ourselves as to the propriety of this accounting treatment of the carrying value of net assets.

In our opinion, except for the effect, if any, of the reporting of the receipt of title to the Manchester Civic Center as a non-exchange transaction on governmental activities, as described in the preceding paragraph, based on our audit and the reports of other auditors the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Manchester, New Hampshire, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis on pages 19 through 32 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with "Government Auditing Standards," we have also issued our report dated October 28, 2005 on our consideration of the City of Manchester, New Hampshire's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, budgetary detail, combining and individual nonmajor fund statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The budgeting detail, combining and individual nonmajor fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

New Haven, Connecticut
October 28, 2005

City of Manchester, New Hampshire
Management's Discussion and Analysis
June 30, 2005

As management of the City of Manchester, New Hampshire (the City) we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented herein along with additional information we have furnished in our letter of transmittal, as well as the City's basic financial statements that follow this section.

Financial Highlights

- ◆ On a government-wide basis of the primary government, the assets of the City exceeded its liabilities resulting in total net assets at the close of the fiscal year of \$433.1 million. Total net assets for Governmental Activities at fiscal year-end were \$93.5 million and total net assets for Business-Type Activities were \$339.6 million.
- ◆ On a government-wide basis, during the fiscal year, the City's net assets increased by \$25.8 million or 6.3%, from \$407.3 million to \$433.1 million. Net assets increased by \$10.8 million for Governmental Activities and net assets increased by \$15 million for Business-Type Activities. Government-wide expenses were \$212.1 million, while revenues were \$237.9 million.
- ◆ At the close of the fiscal year, the City's governmental funds reported, on a current financial resource basis, combined ending fund balances of \$67.6 million, a decrease of \$86.9 million from the prior fiscal year. Of the total fund, \$5.9 million is available for spending at the government's discretion, which represents the combined unreserved fund balance in the general fund, special revenue funds and permanent funds.
- ◆ At the end of the current fiscal year, the total fund balance for the general fund alone was \$24.1 million, a decrease of \$1 million from the prior fiscal year. Included in the fiscal year 2005 budget was an appropriation of \$2 million of unreserved and undesignated fund balance. As of June 30, 2005, \$1.1 million of the total general fund fund balance represents unreserved general fund balance. Unreserved and undesignated general fund fund balance at year-end represents .9% of total general fund expenditures and transfers (\$118.9 million).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information as well as the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. All of the resources the City has at its disposal are shown, including major assets such as buildings and infrastructure. A thorough accounting of the cost of government is rendered because the statements present all costs, not just how much was collected and disbursed. They provide both long-term and short-term information about the City's overall financial status.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference reported as net assets (deficits). Over time, increases or decreases in net assets (deficits) may serve as an indicator of whether the financial position of the City is improving or deteriorating. It speaks to the question of whether or not, the City, as a whole is better or worse off as a result of this year's activities. Other non-financial factors will need to be considered, however, such as changes in the City's property tax base and the condition of the City's infrastructure, to assess the overall health of the City.

The statement of activities presents information showing how the government's net assets (deficits) changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in some future fiscal period, uncollected taxes and earned but unused vacation leave are examples.

Both of the government-wide financial statements distinguish functions of the City of Manchester that are supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business type activities).

- ◆ Governmental activities of the City encompass most of the City's basic services and include governmental and community services, administration, public safety, health and sanitation, highways and streets, welfare, and education and library as well as cemetery, and parks and recreation. Property taxes, charges for services and state and federal grants finance most of these activities.
- ◆ Business-type activities of the City consist of the Water Works, Environmental Protection Division, Aviation, Recreation and the Aggregation Program. They are reported here, as the City charges a user fee to customers to help cover all or most of the cost of operations.
- ◆ The government-wide financial statements include not only the City itself, but also three legally separate component units, the MSD, the MTA and the MDC.

The government-wide financial statements (statement of net assets and statement of activities) can be found on pages 34-37 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control and accountability over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City has three kinds of funds:

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Capital Projects which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation as Other Governmental Funds. Non-major governmental funds, as discussed in the Letter of Transmittal, for the City include the United States Department of Housing and Urban Development (DHUD) Section 108 Fund, Cash Special Projects Fund, Community Development Block Grant Fund, Other Grants Fund, Civic Center Fund, and the Revolving Loan Fund. Permanent Funds consist of the Cemetery Fund and the Library Fund. Individual fund data for each of these non-major governmental funds is provided in the combining balance sheets on pages 96-97 and in the combining statement of revenues, expenditures and changes in fund balance on pages 98-99.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the authorized budget. The statement of revenues, expenditures and changes in fund balance on a budgetary basis can be found on page 41.

The basic governmental fund financial statements (balance sheet and statement of revenues, expenditures and changes in fund balance) can be found on pages 38-39 of this report.

Proprietary funds. The City of Manchester maintains five proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Manchester uses enterprise funds to account for its Water Works, Environmental Protection Division, Aviation, Recreation and the Aggregation Program Funds. The proprietary fund financial statements provide separate information for the Water Works, Environmental Protection Division and Aviation, which are considered to be major funds of the City of Manchester. Conversely, both of the remaining funds are combined into a single,

aggregated presentation in the proprietary fund financial statements. Individual fund data for the Recreation Fund and the Aggregation Program is provided on pages 101-103 in the form of combining statements elsewhere in this report.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements can be found on pages 42-44 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to provide services to the City's constituency. The City has two pension trust funds and one agency fund. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 45-46 and 74-75 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 47-83 of this report.

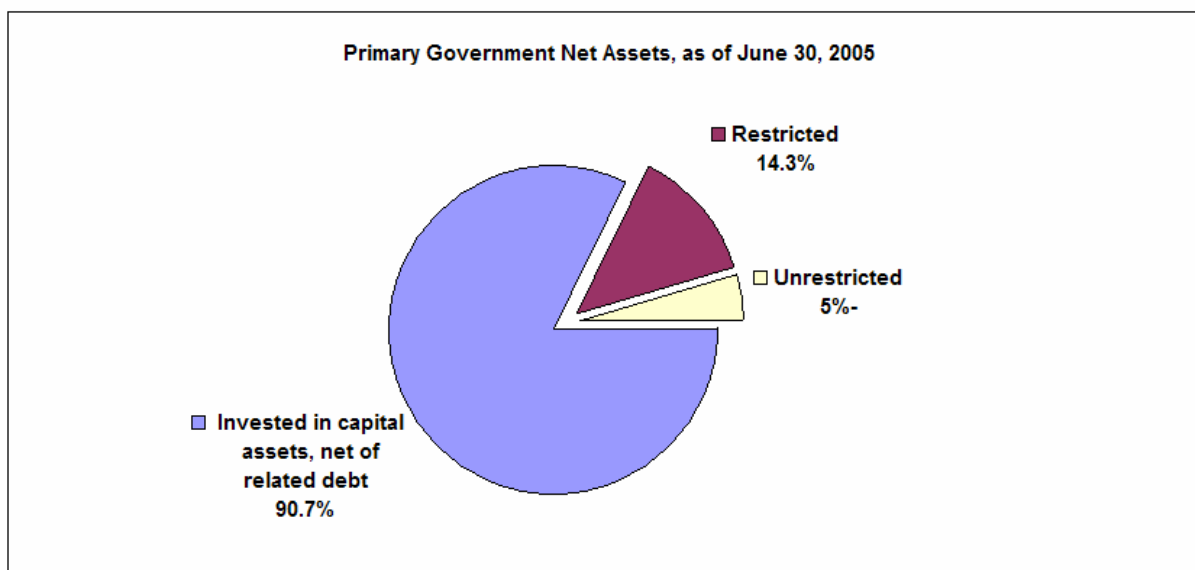
The notes to this report also contain certain information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position and an important determinant of its ability to finance services in the future. On a government-wide basis, the City's assets exceeded its liabilities by \$433.1 and \$407.3 million at June 30, 2005 and 2004, respectively.

City of Manchester, New Hampshire
Net Assets (\$000's)
Primary Government

	June 30, 2005			June 30, 2004		
	Govern- mental Activities	Business Type Activities	Total	Govern- mental Activities	Business Type Activities	Total
Current and Other Assets	\$ 169,553	\$ 102,391	\$ 271,944	\$ 254,912	\$ 127,240	\$ 382,152
Non-Current	20,794	4,447	25,241	17,931	5,610	23,541
Capital Assets	303,702	586,618	890,320	216,039	572,833	788,872
Total Assets	494,049	693,456	1,187,505	488,882	705,683	1,194,565
Current Liabilities	103,387	23,439	126,826	109,641	39,092	148,733
Long-term liabilities outstanding	297,141	330,421	627,562	296,522	342,012	638,534
Total Liabilities	400,528	353,860	754,388	406,163	381,104	787,267
Net Assets:						
Invested in capital assets, net of related debt	114,061	278,807	392,868	94,438	243,640	338,078
Restricted	19,439	42,328	61,767	19,162	38,493	57,655
Unrestricted	(39,979)	18,461	(21,518)	(30,881)	42,446	11,565
Total Net Assets	\$ 93,521	\$ 339,596	\$ 433,117	\$ 82,719	\$ 324,579	\$ 407,298

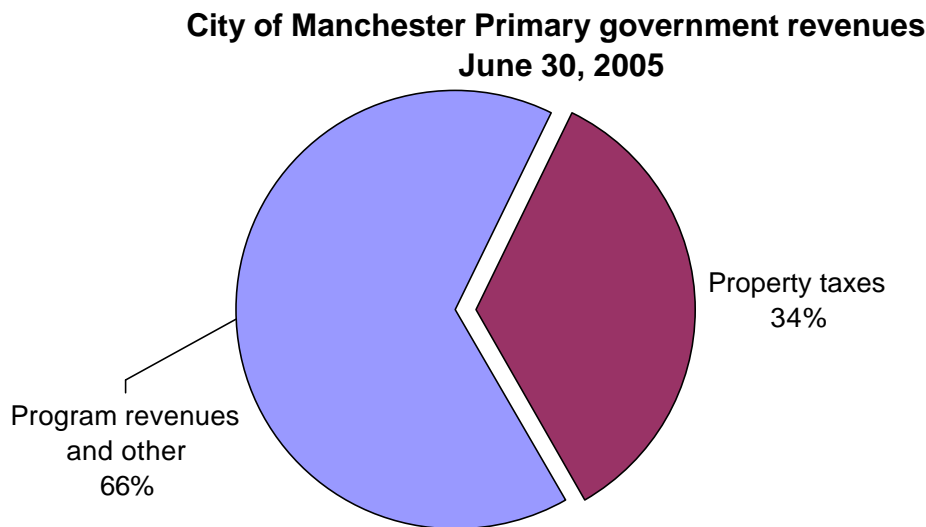
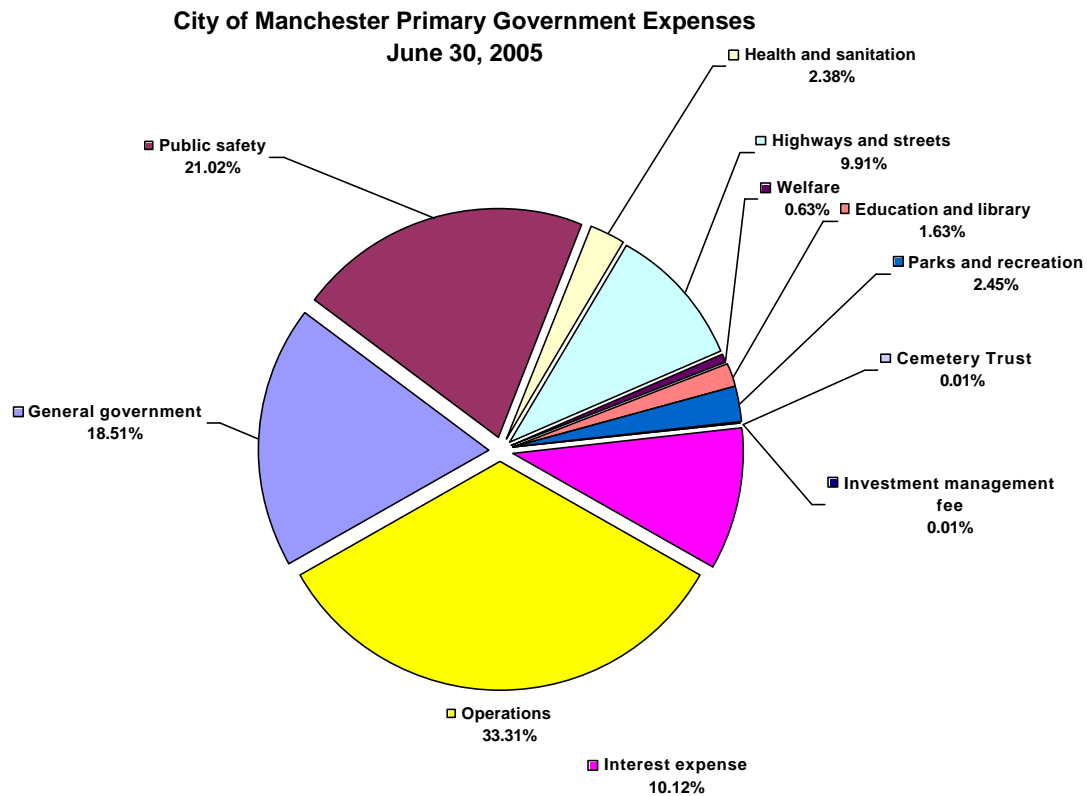


At the end of the current fiscal year, the City is able to report a positive balance in both its governmental and proprietary activities.

The portion of the City's net assets of \$392.9 million reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), net any outstanding debt related to these assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The portion of the City's net assets that are restricted, \$61.8 million, represents resources that are subject to external restrictions on how they may be used. Governmental unrestricted net assets (deficit) of (\$39.9) million may not be used to meet the government's ongoing obligations to citizens and creditors, due to the negative balance. The primary reasons for the negative balance are due to the Pension Obligation Bond with an outstanding balance of \$15,982,876, which was issued to properly fund the unfunded amount, the Landfill Closure Project, which has an outstanding balance of \$13,686,486, other landfill closure and post-closure care costs estimated liability with an outstanding balance of \$3,214,982, Urban Renewal Related Projects with outstanding balances of \$2,394,524, Revaluation debt with an outstanding balance of \$1,362,130, long-term debt related to insurance claims with an estimated outstanding balance of \$3,611,038, as well as long-term debt related to compensated absences with an estimated outstanding balance of \$9,584,503 at June 30, 2005.

City of Manchester, New Hampshire						
Changes in Net Assets (\$ 000's)						
Primary government						
	June 30, 2005			June 30, 2004		
	Govern- mental Activities	Business Type Activities	Total	Govern- mental Activities	Business Type Activities	Total
Revenues:						
Program Revenues:						
Charges for services	\$ 25,587	\$ 78,753	\$ 104,340	\$ 22,783	\$ 71,028	\$ 93,811
Operating grants and contributions	20,757	5,607	26,364	24,127	4,188	28,315
Capital grants and contributions		17,948	17,948		4,637	4,637
General Revenues:						
Property taxes/auto/franchise fees	81,062		81,062	77,328		77,328
Unrestricted investment earnings	2,890	2,456	5,346	2,607	2,177	4,784
Transfers and other	5,818	(3,007)	2,811	1,137	4,323	5,460
Total revenues	136,114	101,757	237,871	127,982	86,353	214,335
Expenses:						
General government	39,257		39,257	37,484		37,484
Public safety	44,575		44,575	38,502		38,502
Health and sanitation	5,044		5,044	5,247		5,247
Highways and streets	21,018		21,018	21,277		21,277
Welfare	1,345		1,345	1,325		1,325
Education and library	3,467		3,467	2,509		2,509
Parks and recreation	5,190		5,190	4,717		4,717
Cemetery Trust	26		26	31		31
Investment management fee	31		31	29		29
Interest expense	5,359	16,106	21,465	5,856	13,196	19,052
Operations		70,634	70,634		59,879	59,879
Total Expenses	125,312	86,740	212,052	116,977	73,075	190,052
Change in net assets	10,802	15,017	25,819	11,005	13,278	24,283
Net assets - beginning	82,719	324,579	407,298	71,714	311,301	383,015
Net assets - ending	\$ 93,521	\$ 339,596	\$ 433,117	\$ 82,719	\$ 324,579	\$ 407,298



The City's net assets increased by \$25.8 million during the fiscal year, with net assets of Governmental Activities increasing by \$10.8 million, and net assets of Business-Type Activities increasing by \$15 million.

Governmental Activities

More than 59.55% of the governmental funds revenues were derived from property taxes, auto registrations and franchise fees, followed by 18.8% from charges for services, then 15.25% from operating grants and finally, about 6.4% of the City's revenue in this fiscal year was derived from a combination of investment earnings, gain (loss) of sales of capital assets, and transfers.

Major revenue factors included:

- ◆ Total revenues, excluding transfers and other, increased by \$11 million.

Business-Type Activities

Business-Type activities increased the City's net assets by \$15 million, which is an increase of \$1.7 million from an increase of \$13.3 million for last year. See next page for more detail.

- ◆ Water Works net assets increased by \$3.1 million, up \$1.5 million from the increase in net assets of \$1.6 million last year.
- ◆ EPD net assets decreased by \$.9 million, down \$2.7 million from the increase in net assets of \$1.8 million due mainly to the donation of land for \$2.99 million.
- ◆ Aviation net assets increased by \$12.6 million. Aviation fund capital contributions amounted to \$13.9 million, an increase from \$.8 million the previous year .

Financial Analysis of the Fund Financial Statements

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$67.6 million, a decrease from \$154.5 million as reported on June 30, 2004. Approximately 50.5% of this total amount constitutes unreserved fund balance that is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed: \$17.17 million to cemetery, library and other trust funds; \$8.84 million to liquidate contracts and purchase orders of the prior period; \$2.39 million to self-insured workers' compensation claims reserve; \$1.7 million for advances to an enterprise fund and \$.7 million for inventory.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved and undesignated fund balance of the general fund was \$1.12 million while the total fund balance reached \$24.05 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures and education operating transfers. Unreserved fund balance represents 15.85% of total general fund expenditures of \$112,705,143, while total fund balance represents 21.34% of that same amount.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Manchester Airport continued to experience real passenger growth in FY2005, approximately 11.8% higher than FY 2004. Operating income dropped from \$6,086,033 in FY2004 to \$2,461,808 in FY2005, a decrease of 59.6%. This decrease was due to increased depreciation expense from the improvements of a larger physical plant placed in service in FY2005.

Net assets of the proprietary fund consisting of the Water Works were \$66.48 million, as compared to \$63.41 million in the prior year.

The unrestricted net assets of the Water Works was \$.5 million. The restricted net assets increased from \$6.7 million to \$10.52 million to maintain the reserves for the revenue bonds sold in FY2004. The Water Works experienced operating revenues of \$13.5 million from user fees. There was a total net income for the Water Works of \$618,122 before capital contributions of \$2.45 million. The change in net assets for the fiscal year ended June 30, 2005 was \$3.07 million, due mainly to an increase in capital contributions.

Total assets for EPD decreased from \$145.7 million ending balance at June 30, 2004 down to \$140.64 million at June 30, 2005. EPD's cash decreased by \$5 million primarily due to paying cash, rather than incurring debt, for the construction and acquisition of capital resources. This resulted in a \$5.7 million increase in investments in capital assets.

The fiscal year 2005 ending fund balance (fund net assets) is \$104.5 million. Investments in capital assets accounts for 80% of this total fund balance.

General Fund Budgetary Highlights

The City ended Fiscal Year (FY) 2005 with decrease in the general fund balance sheet over FY 2004. The City's "rainy day" revenue stabilization fund increased from \$9,633,625 to \$10,098,844. The City's unreserved and undesignated fund balance decreased from \$1,356,227 to \$1,122,693, less than the targeted one percent of the FY 2005 tax warrants according to City ordinance which would make it \$1,460,872, resulting in a deficit of \$338,179. The deficit occurred even after using up the tax rate stabilization, which had a balance of \$641,904 last year. The special revenue account which accounts for one-time revenues, (i.e., property sales, etc.) which increased by \$894,341 to \$4,607,686 from \$3,713,345. The City's reserves for workers compensation, health insurance, and general liability had an aggregate decrease of \$1,573,000 or 26% from \$5,997,930 to \$4,424,930.

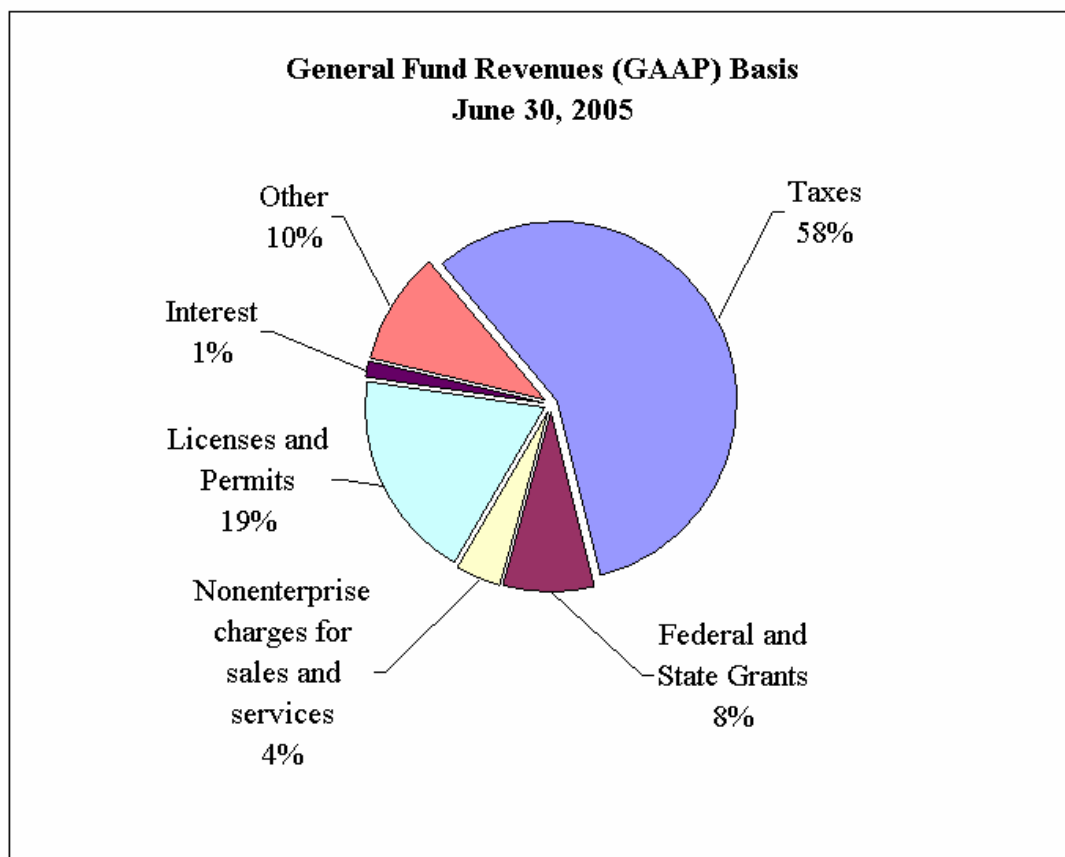
During the year, actual revenues and other financing sources on a budgetary basis were \$111.13 million, realizing a deficit of \$779,553 over the estimated revenues and transfers of \$111.92. Actual tax revenues were under budget by \$949,868. Actual intergovernmental revenue was \$465,641 over budgetary estimates. Investment income was \$398,585 more than the \$1 million that had been budgeted. Additional shortfalls of \$227,874 resulted in licenses and permits. Nonenterprise charges for sales and services were \$25,625 less than budgeted. Other revenues were \$415,328 less than budgeted.

Actual expenditures on a budgetary basis and other financing uses totaled \$113.12 million, \$771,107 less than budgeted. The combined net difference of budgeted revenues and expenses

on a budgetary basis resulted in a negative variance of \$8,446. The fiscal year 2005 budget included a planned appropriation of fund balance of \$1.9 million.

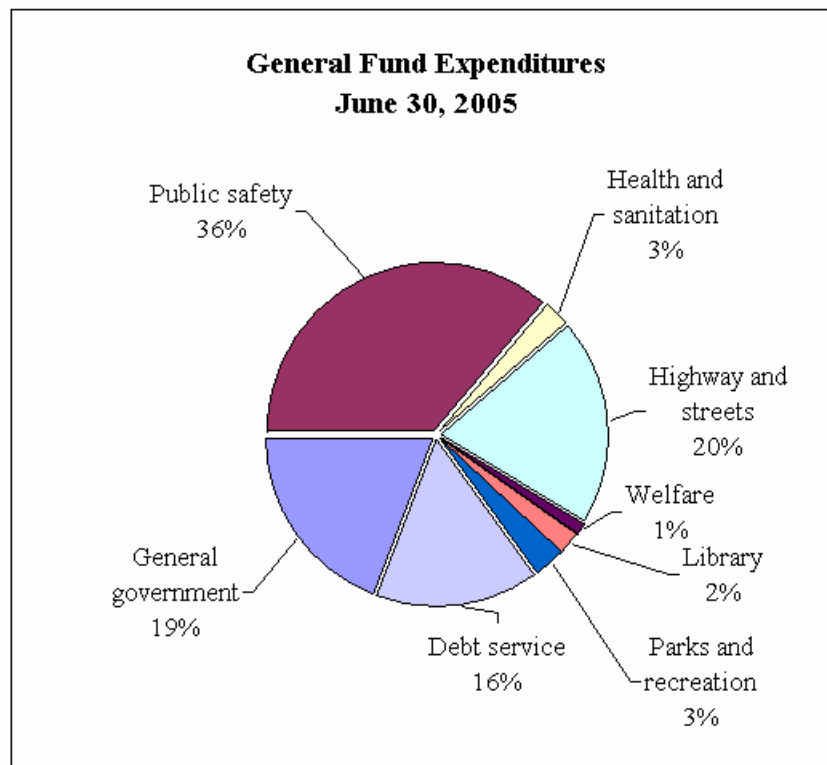
General Fund Revenues - The following schedule presents a summary of General Fund revenues (GAAP basis) for the years ended June 30, 2005 and 2004.

Revenues	2005 Amount (000's)	2004 Amount (000's)	Amount of Increase (Decrease) (000's)	Percent of Increase (Decrease)
Taxes	\$ 65,844	\$ 62,990	\$ 2,854	4.53%
Federal and State Grants	9,112	8,075	1,037	12.84%
Nonenterprise charges for sales and services	4,688	4,691	(3)	-0.06%
Licenses and Permits	21,964	21,452	512	2.39%
Interest	1,398	736	662	89.95%
Other	11,860	11,608	252	2.17%
Total	<u>\$ 114,866</u>	<u>\$ 109,552</u>	<u>\$ 5,314</u>	<u>4.85%</u>



General Fund Expenditures - The following schedule presents a summary of General Fund Expenditures (GAAP basis) for the years ended June 30, 2005 and 2004.

Expenditures	2005 Amount (000's)	2004 Amount (000's)	Amount of Increase (Decrease) (000's)	Percent of Increase (Decrease)
General government	\$ 21,652	\$ 19,639	\$ 2,013	10.25%
Public safety	41,273	39,326	1,947	4.95%
Health and sanitation	2,958	2,811	147	5.23%
Highway and streets	22,186	21,222	964	4.54%
Welfare	1,186	1,272	(86)	-6.76%
Library	2,461	2,417	44	1.82%
Parks and recreation	3,435	3,204	231	7.21%
Debt service	17,554	15,487	2,067	13.35%
Total	\$ 112,705	\$ 105,378	\$ 7,327	6.95%

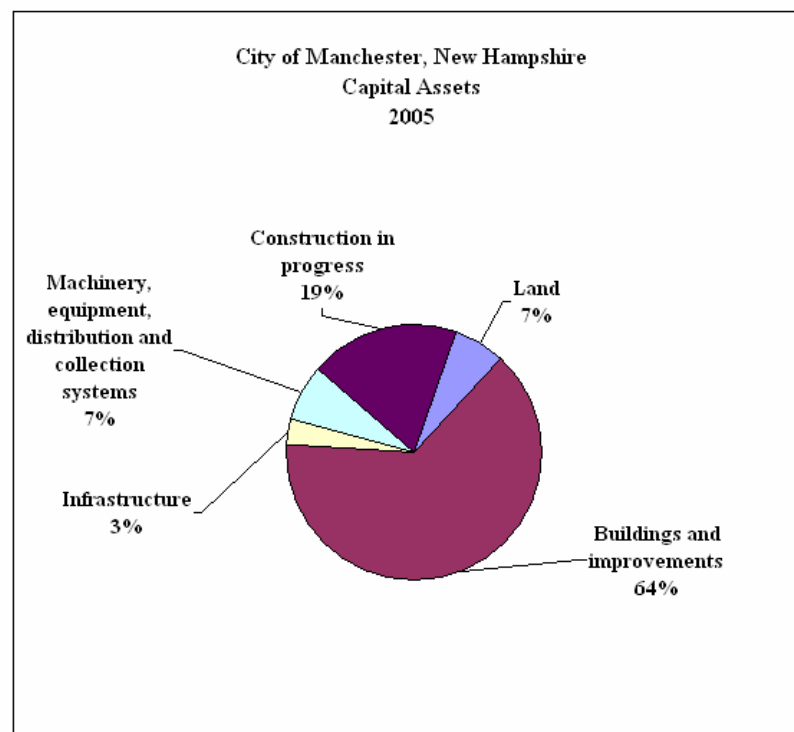


Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2005, amounts to \$890.32 million, net of accumulated depreciation. This investment in capital assets includes land, building and system improvements, machinery and equipment, park facilities, roads, sewers and bridges. The total increase in the City's investment in capital assets for the current fiscal year was \$39.59 million or 11.71%.

City of Manchester, New Hampshire
Capital Assets (net of depreciation) (000's)
June 30, 2005 and 2004
Primary Government

	2005			2004			
	Govern- mental Activities	Business- Type Activities	Total	Govern- mental Activities	Business- Type Activities	Total	Change
Land	\$ 18,454	\$ 39,518	\$ 57,972	\$ 19,129	\$ 37,077	\$ 56,206	\$ 1,766
Buildings and improvements	127,700	439,726	567,426	123,340	440,981	564,321	3,105
Infrastructure	30,454	-	30,454	22,552	-	22,552	7,902
Machinery, equipment, distribution and collection systems	8,896	53,937	62,833	8,614	54,530	63,144	(311)
Construction in progress	118,198	53,437	171,635	42,403	40,245	82,648	88,987
Total	\$303,702	\$586,618	\$890,320	\$216,038	\$572,833	\$788,871	\$101,449



Major capital asset events during the current fiscal year included the following:

- ◆ Improvements and renovations to school facilities.
- ◆ Continued rehabilitation of playgrounds and athletic fields.
- ◆ Infrastructure improvements including roads, bridges, and sanitary and sewer projects.
- ◆ Replacement of emergency and rescue equipment and purchase of police vehicles.
- ◆ Acquisition of parcels for ongoing city development projects.
- ◆ Aviation capital improvements and buildings.
- ◆ Water Works improvements.
- ◆ EPD capital improvements and infrastructure.
- ◆ Recreation capital improvements.

Information on the City's capital assets can be found in Note 8 on pages 66-69 of this report.

City of Manchester, New Hampshire
Outstanding Debt
General Obligation and Revenue Bonds (000's) in thousands
June 30, 2005 and 2004

	2005			2004		
	Govern- mental Activities	Business- Type Activities	Total	Govern- mental Activities	Business- Type Activities	Total
General Obligation Bonds	\$162,273	\$ 43,579	\$205,852	\$177,585	\$ 46,382	\$223,967
Revenue Bonds	99,025	282,663	381,688	101,410	304,928	406,338
Totals	<u>\$261,298</u>	<u>\$326,242</u>	<u>\$587,540</u>	<u>\$278,995</u>	<u>\$351,310</u>	<u>\$630,305</u>

Long-term debt. At the end of the current fiscal year, the City had total debt service requirements including interest payments, on bonded debt outstanding, of \$960,628,724. 100% of the general obligation debt is backed by the full faith and credit of the City government.

The City was assigned the following credit ratings; FitchRatings, Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., have assigned the ratings of "AA+," "Aa2," and "AA+," respectively, to the Bonds.

The general debt limit of the City is 9.75% of base valuation. Base valuation (\$9,652,936,828) is determined by adding the amount of taxable property lost to the City as a result of the enactment of the State Business Profit Tax Law to the "equalize assessed valuation." Not more than 7% of the base valuation may be incurred for school purposes. Water and sewer projects ordered by the State Water Supply and Pollution Control Commission, self-supporting sewer debt, debt for urban redevelopment and housing purposes, and overlapping debt are excluded from the measure of indebtedness. Other water projects are subject to a separate, special debt limit of 10% of the City's base valuation. Borrowings authorized by legislative acts rather than the general municipal finance statutes are sometimes excluded from the city's debt limit. The Total Equalized Valuation figure includes Utility Valuation and Railroad Monies Reimbursements. Total bonded debt for the general government includes the MSD portion. As of June 30, 2005, the City recorded long-term debt of \$123,103,696 related to Governmental Activities, \$138,194,794 related to the MSD and \$326,242,612 related to Business-Type Activities, well below its statutory debt limit.

Information on the City's long-term debt can be found in Note 9 on pages 70-74 of this report.

Economic Factors and Next Year's Budgets and Rates

As of October 2005, the unemployment rate for the Manchester Metropolitan Statistical Area was 3.4%, the same as in the prior year.

Fiscal Year 2005 Budget

The fiscal year 2006 combined General Fund budget for the City and the MSD contains an appropriation increase of 3.17% over the fiscal 2005 budget. Non-property tax revenues are anticipated to remain flat. In the formulation of the fiscal 2006 budget, the Board of Mayor and Aldermen, after consultation with the Department of Finance and the City's assessing department, produced a budget to meet all contracted obligations without layoffs or reductions in City services. The areas of concern in developing the fiscal year 2006 budget were a sluggish economy leading to flat collections of non-property tax revenues, increased costs for retirement fund contributions and health insurance and an obligation to maintain the highest possible level of public safety, health and education. The City believes that it has met all of those concerns in the final adopted fiscal year 2006 budget.

The following table sets forth the City's General Fund operating budgets for fiscal years 2004-2006. Enterprise funds, the County tax, veteran exemptions and the overlay reserve for abatements are excluded from this table.

BUDGET TRENDS

	2004		2005		2006	
	Amount	%	Amount	%	Amount	%
Education	\$ 126,575,275	54.3%	\$ 137,499,619	54.9%	\$ 142,203,719	54.9%
General Government	18,172,463	7.8%	21,851,784	8.7%	23,099,336	8.9%
Public Safety	40,134,677	17.2%	40,305,905	16.1%	42,813,034	16.5%
Highway and Streets	21,520,212	9.2%	22,190,323	8.9%	22,796,144	8.8%
Health and Welfare	4,378,700	1.9%	4,500,243	1.8%	4,661,509	1.8%
Culture and Recreation	5,819,972	2.5%	6,045,190	2.4%	6,083,322	2.3%
Economic Development	172,000	0.1%	229,989	0.1%	261,449	0.1%
Motorized Equipment	120,000	0.1%	200,000	0.1%	1,500,000	0.6%
Debt Service	16,228,552	7.0%	17,558,150	7.0%	15,467,725	6.0%
Total Budget	<u>233,121,851</u>	<u>100.0%</u>	<u>250,381,203</u>	<u>100%</u>	<u>258,886,238</u>	<u>100.0%</u>
Less MSD Budget	(126,575,275)		(137,499,619)		(142,203,719)	
General Fund Budget	<u>\$ 106,546,576</u>		<u>\$ 112,881,584</u>		<u>\$ 116,682,519</u>	

Requests for Information

The financial report is designed to provide a general overview of the City's finances for all those with an interest in government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance at One City Hall Plaza, Manchester, NH 03101.